

## Message Text

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C O N F I D E N T I A L COPENHAGEN 4461

LIMDIS

DEPT PASS TREASURY

BRUSSELS FOR USSEC

PARIS FOR OECD

E.O.: 11652: GDS  
TAGS: ECON, EFIN, DA  
SUBJ: FINANCE MINISTER DISCUSSES CONTEMPLATED MEASURES TO  
COPE WITH DANISH ECONOMIC AND FINANCIAL PROBLEMS

REFS: (A) COPENHAGEN 4447, (B) COPENHAGEN A-70

1. THE MEMORANDUM ON THE DANISH ECONOMIC SITUATION FINANCE  
MINISTER HEINESEN HANDED ME DURING OUR MEETING ON JULY 26  
(REFAIR) STATED THAT THE GOVERNMENT IS CONSIDERING A FURTHER  
TIGHTENING OF FISCAL POLICY TO IMPROVE THE BALANCE OF PAYMENTS  
OVER THE NEXT THREE YEARS. HEINESEN ELABORATED ON THIS POINT  
DURING OUR DISCUSSION.

2. THE DANES HOPE TO INCREASE FISCAL REVENUE BY ABOUT DOLS.  
1.2 BILLION IN EACH OF THREE CONSECUTIVE FISCAL YEARS, OR BY  
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ABOUT 8 PERCENT ABOVE CURRENT LEVEL. ADDITIONAL TAXES WOULD BE  
OF A SELECTIVE NATURE, AIMED PRIMARILY AT ENERGY CONSUMPTION AND  
OTHER ITEMS WHICH EFFECT IMPORTS HEAVILY. HEINESEN CONCEDED THAT  
THE FISCAL RESTRAINT PROGRAM WOULD ADVERSELY AFFECT EMPLOYMENT.  
IN ORDER TO OFFSET THIS AFFECT, THE GOVERNMENT PLANS TO INTRODUCE  
A NUMBER OF MEASURES, SUCH AS INVESTMENT INCENTIVES AND OTHER JOB-  
CREATING PROGRAMS AT AN ANNUAL COST OF ABOUT DOLS. 0.5 BILLION

PER ANNUM. HEINESSEN EXPRESSED THE HOPE THAT THE OVERALL EFFECT OF THE PROGRAM WOULD BE A NOMINAL IMPROVEMENT IN EMPLOYMENT.

3. I RECALLED TO HEINESSEN THE RECENT STATEMENT BY HIS CABINET COLLEAGUE, ECONOMICS MINISTER HAEKKERUP, TO THE EFFECT THAT WHILE THE DANISH GOVERNMENT DID NOT CONTEMPLATE IMPORT-RESTRICTIVE MEASURES AS SUCH (WHICH MIGHT VIOLATE INTERNATIONAL AGREEMENTS), IT MIGHT GO "RIGHT TO THE LINE". HEINESSEN EMPHATICALLY DENIED, HOWEVER, THAT ANY OF THE MEASURES CONTEMPLATED COULD BE INTERPRETED AS A DEVIATION FROM THE LIBERAL POLICY THUS FAR PURSUED BY THE DANES.

4. DESPITE THE NOT VERY POSITIVE TRADE AND PAYMENTS DEVELOPMENTS IN THE FIRST HALF OF 1977, HEINESSEN STILL HOPED FOR SOME REDUCTION IN THE PAYMENTS DEFICIT FROM LAST YEAR'S DOLS. 2 BILLION LEVEL. HE HOPED THAT THE NEW PROGRAM WOULD PROVIDE ANNUAL DEFICIT REDUCTIONS OF TH MAGNITUDE OF DOLS. 300-400 MILLION. EVEN IF THIS TARGET WERE MET, HOWEVER, RISING DEBT MANAGEMENT COSTS WOULD OFFSET THIS GAIN AND MAINTAIN THE FOREIGN FINANCING REQUIREMENT AT A LEVEL OF DOLS. 1.7 BILLION PER ANNUM THROUGH 1980.

5. COMMENT: THE PROGRAM OUTLINED BY HEINESSEN IN THIS MESSAGE AND REPAIR CLEARLY REPRESENTS A DIFFICULT BALANCE OF PAYMENTS DECISION BY THE SOCIAL DEMOCRATIC GOVERNMENT TO GIVE PRIORITY TO BALANCE OF PAYMENTS CONSIDERATIONS AT THE COST OF A FURTHER IN-CONFIDENTIAL

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CREASE IN UNEMPLOYMENT.

6. WE NOTE THAT IN THE FIRST HALF OF 1977, CONSUMER IMPORTS STAGNATED BUT IMPORTS OF RAW MATERIALS WERE RELATIVELY HIGH. THIS WAS PROBABLY CAUSED BOTH BY PRICE AND CURRENCY DEVELOPMENTS. ALSO EXPORTS ROSE LESS THAN ANTICIPATED. AS TERMS-OF-TRADE DETERIORATED, THE TRADE DEFICIT WAS SLIGHTLY LARGER THAN LAST YEAR AND THE PAYMENTS DEFICIT WAS NOT REDUCED. CONTRARY TO LAST YEAR, HOWEVER, MOST OF THE DEFICIT WAS COVERED BY PRIVATE BORROWING OUTSIDE DENMARK SO THAT THE SIGNIFICANT GOVERNMENT BORROWING ABROAD COULD BE BANKED AND PRODUCED A CORRESPONDING INCREASE IN FOREIGN EXCHANGE RESERVES. THE LATTER ACTUALLY DOUBLED AND NOW STANDS AT ABOUT DOLS. 2 BILLION. ALTHOUGH THE GOVERNMENT IS BEING PRESSED POLITICALLY FOR A REDUCTION IN THE HIGH DOMESTIC INTEREST RATE, NO DRASTIC CHANGE IN MONETARY POLICY IS FORESEEN. WE EXPECT THE GOVERNMENT TO CONTINUE TO ENCOURAGE PRIVATE FINANCING ABROAD THROUGH A TIGHT DOMESTIC MONETARY POLICY IN ORDER TO REDUCE THE BORROWING THE DANISH GOVERNMENT MUST DO ABROAD. DEAN

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## Message Attributes

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